# Albert Meyer of Bastiat Capital

**Hall T Martin:** [00:00:04] This is the Investor Connect Podcast Program, I'm Hall T Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early-stage and growth companies. I hope you enjoy this episode.

**Hall T Martin:** [00:00:23] Well hello, this is Hall Martin with Investor Connect. Today we're here with  Albert Meyer, Founder and Chief Investment Officer at Bastiat Capital. Albert, thank you for joining us.

**Albert Meyer:** [00:00:32] Thank you. I'm thrilled. Thank you so much.

**Hall T Martin:** [00:00:35] Great. And so, what was your background before investing in companies? What did you do before this?

**Albert Meyer:** [00:00:40] Well, it's a long story. I was born in South Africa and I became a chartered accountant with Deloitte & Touche, and then I switched into the world of academia and became an accounting professor for 15 years and came to Michigan to teach. Then I uncovered that big Ponzi scheme, and even though I passed the CPA exam, Michigan wouldn't certify me because they argued I had to resign as an accounting professor and go and work for a small auditing firm for two years and Deloitte & Touche wrote them a letter and said, you know, he was in our Capetown office for four years and they still wouldn't do it. So, Indiana said, we'll take you. So, I'm an Indiana CPA and I worked for Martin Capital, he read about me in The Wall Street Journal after the New Era story broke. And, so I left that and I went and worked for him and I did a story on Coca-Cola's accounting, and David Tice, who was a short-seller here in Dallas, recruited me and I worked for him for about four or five years. And then, after the dot-com implosion, I wanted to focus on long ideas, but David wanted to continue on the short side. So, I started my own investment research business school called 2nd Opinion, and then in 2006, I switched over to Bastiat Capital. Frederic Bastiat was a French economist who believed in limited government and free trade. So, outmoded notions, but he was a great economist. Ronald Reagan used to quote him often. So I named the company after Bastiat, Bastiat Capital, and our website is Bastiat Funds because there was a girl at Oxford University who had the Bastiat Capital website already, but she didn't have a business, but she earned the name. And so, I quickly registered the trademark Bastiat Capital. And so, I didn't mind that great minds think alike in a way that somebody at Oxford wanted to also start Bastiat Capital. So, that's how we got to the name Bastiat after Frederic Bastiat.

**Hall T Martin:** [00:02:48] That's great. And, so what excites you right now?

**Albert Meyer:** [00:02:51] Well, I'm excited about technology, I'm excited about the world at large, I'm not excited about the sort of anti-China notions and xenophobia. I think China is a huge market at 1.4 billion people and a growing economy, and so, I would say it's a terrific market. And they just had an expo and 199 U.S. companies exhibited at the expo. So, the U.S. corporations are not buying into the anti-China policies of Washington. So, I'm very bullish on China and bullish on their trading relations with 140 nations across the _________ initiative, which they're doing a tremendous amount of trade with Europe. It's ramping up a tremendous rate, and so, I'm very excited about that. And I think we have a tremendous pool of human and financial capital in America to compete with any country in the world. We just don't need politicians to try and re-engineer the economy to their little likings and phobias. So, I'm excited about the future. I'm not a pessimist.

**Hall T Martin:** [00:04:03] Well, great. And so, you see a lot of startups, and a lot of companies, and a lot of investing, what's your advice for people investing in startups? What do you tell them to do about that?

**Albert Meyer:** [00:04:14] Well, I did indicate that I don't really invest in startups. In fact, we invest in large-cap stocks only. Well, you have to understand that we invest in the wealth of high-net-worth individuals, and so, I'm not swinging for the fences. But, if I'm a young person and I have some walk-around money, then by all means, look at the startups and it's difficult. It's the same with the biotechs. You could look at 100 companies and maybe five of them will turn out to be, you know, blockbusters. But the due-diligence process is really not much different from a startup to a large cap. We look at ten years of financial statements and five years of Qs and we analyze and prepare the numbers ourselves. We do five-year earnings model ourselves, and then we tear the business model apart and look at the competitors, suppliers, customers, et cetera. It's a very intensive due-diligence process. With startups, there's a lot of expectations, it's speculative, a lot of expectations, so it's very careful looking at what you invest in. And look at the competitive landscape, because there might be some low-hanging fruit, but the big guys aren't going to just open the barriers and say, come into our markets. So, it's a tough world.

**Hall T Martin:** [00:05:35] So with that company experience, what's your advice for people running large-cap companies?

**Albert Meyer:** [00:05:40] Well, I wish I had that kind of expertise to run a large-cap company and I can pick up these $20-billion salaries. Being an accountant, my accounting background is really my competitive advantage in that the numbers to me speak, every line item in the income statement, balance sheet, and cash flow statement, and so, I would really focus on the numbers, and the spending habits, and budget very carefully. But then on the other side, the marketing and the operational side, that's a different story. I don't have expertise in that, but I'm sometimes surprised at how things can go wrong at the corporate level and I think GE is the poster child because they have tremendous operating divisions and yet, they time and time again spend $20 billion, $30 billion on buying back stock at the top prices and then the market collapsed and then suddenly they sort of crashed and they have to issue stock at much depressed levels. And then, of course, they gave all these options to executives once the market cratered. So, that kind of corporate-governance issue would really concern me, you know, from a big business point of view, you know. Be very careful how you allocate those capitals because you're starving your operating divisions when you start buying back stock at these very high multiples. So, I'm not going to claim any special expertise in that field.

**Hall T Martin:** [00:07:10] Great. And so, how do you see the industry evolving? It seems like we're at a turning point now after COVID and we have a whole new set of careabouts, the economy's changed dramatically in a short amount of time. How do you see the industry evolving going forward from here?

**Albert Meyer:** [00:07:25] Well, I don't think there'll be major changes. I think a terrific change, you know, last year was when companies or brokerages dropped their trading fees, their commissions, I think that was terrific. And now you have some consolidation like TD Ameritrade and Schwab, so I think that consolidation will continue, but, they would never be a shortage of investment managers or there will always be a need for people to manage portfolios, even though a lot of people would argue that ETFs have made it easier for the small investor, and I would agree that there is an element, but the larger money managers really don't want these retail investors anyway. But, I still think the best managers are best at their due-diligence process and can produce the performance numbers, will continue to dominate.

**Hall T Martin:** [00:08:17] So, that is the biggest change last year, what do you think might be the next biggest change we'll see this year and next going forward? Where do you think we'll go from here?

**Albert Meyer:** [00:08:26] I knew you were going to ask me that question and I thought a lot about it, but it's very difficult for me to envisage major changes. I know yesterday - was it Barclays, not Barclays - Bank of America had joined with a new trading platform, and I think there might be changes in how stocks and bonds are traded rather than through the big exchanges. But, I think, in essence, it's going to be buyers and sellers of securities will continue, as it always has.

**Hall T Martin:** [00:08:58] What do you think about crypto? Do you think that's going to come to be a major change in a part? It seems like Bitcoin is there around the edges and just not getting a fund here and there and a lot of interest from the fringes, but, do you think that is ever going to go mainstream?

**Albert Meyer:** [00:09:16] I don't know. It's sort of, it's so new, it's fraught with all kinds of questions and issues, and it's very volatile, and one never knows how the central bankers and the politicians might step in and start taxing it or making it illegal or just making it very difficult to do crypto transactions. At the moment, there's not any real concern. But again, it's a matter of buyers and sellers and, you know, if you have people who buy into it and want to invest in it, then the price will go up. But it's difficult to price. It's obviously not something that we would ever invest in. My sons, especially the one _____has a bit of a love for doing that. He invests in some crypto and he thinks it's a great story. But again, for our clients, it's not suitable, and so I don't really consider it an investment option.

**Hall T Martin:** [00:10:14] Ok. And so what is your investment thesis? What do you look for when you actually make investments into large caps?

**Albert Meyer:** [00:10:20] Well, my thesis is to find the world's best companies and you don't have to find 100 of them, you just have to find 30 of them. There's 30 30s. So, I must have gone through 600 companies, written reports on over 600 companies in my archive that I have analyzed to death and you learn something every time. So, I've picked up a lot of expertise in that area and the ability to see through a lot of fluff. And so, I want companies with very solid business models that dominate the industries, have a real competitive edge or as______would say, "a moat" and, you know, return on assets for example. I don't know how many people take note of the return on assets, but that would just be one ratio that I would track over a 10-year period, and the past 10 years if we do earn the stock, I'll keep tracking that, because, to me, that's an indicator of where the diminishing marginal returns are now kicking in, for instance. And especially when a company makes an acquisition and its return on assets goes down, then it's a clear indication that they overpaid. So, I don't want a large portfolio, I want a concentrated portfolio in sectors and industries where the companies I own dominate.

**Hall T Martin:** [00:11:43] Great. Can you talk about one or two companies that fit that thesis?

**Albert Meyer:** [00:11:47] Yeah. I'll mention MasterCard, for instance, you can add Visa to that. They're extremely profitable at 40% profit margins, they're not monopolies, but they really dominate the credit card industry. They have very light balance sheets, their return on assets is high, they don't have to invest in ______or machinery and have people running around greasing the gears and doing maintenance, and they don't have a ton of employees. So, they have a very, what I would say, "clean, mean, and lean" business model. And they are pricey, and I'm not saying go out tomorrow and buy MasterCard and Visa, although they've sold off a little bit recently. But that's just an example of a good company because they're not capital-intensive, and that's what I like, I don't like capital-intensive companies. Buffett likes capital-intensive companies, but then he has $200 billion to play with. So, he has to look at it differently. But I prefer companies that say it, "mean, lean, and clean".

**Hall T Martin:** [00:12:54] Great. So, what are the challenges for companies today? What do you think they're struggling with to continue their growth? Is it just COVID, or is there something else?

**Albert Meyer:** [00:13:03] Well, I think, again, the type of companies that rely on customers, not recurring revenues, but just, you know, dealing with new customers and maybe old customers, but they're going to come back and buy another steak, or another pizza, or another pair of shoes, etc., or book another flight, or go on another vacation. Those kinds of businesses, I think they are going to struggle for a long time still because I don't think the world is just going to turn on suddenly. I know if they get a vaccine, that will make a huge difference, but until that happens, they're going to struggle. But the tech-type companies, I think they've actually benefited from COVID, many of them, and I think they will continue to grow. Some of them are growing gangbuster. So, I think in the tech world, the growth will continue.

**Hall T Martin:** [00:14:01] And so on the other side of the table, what's the challenge for the investor in today's economy?

**Albert Meyer:** [00:14:06] Well, the challenge is to stay prudent. And, in the '90s, we had 20% returns, followed by 30% returns, followed by 20% returns, followed by 15% returns, followed by 25% returns. We had these incredible runs and you get caught up in it and you just want to invest and follow the crowd. And so, you can't blame people for wanting ______equities, because if the 10 year offers you 65 base points, fixed income is a real struggle. But, just be prudent and don't put all your eggs in one basket, but don't overdiversify, and find the companies with a real competitive edge and technology that's not easily replicated. And then watch what you earn, because things do happen and something that's a sure bet today might not be a sure bet tomorrow because of a new competitor and technology coming in on the market.

**Hall T Martin:** [00:15:08] So, if you had to pick one or two sectors that you think are good, immediate opportunities for investors to pursue, what would you put at the top of the list?

**Albert Meyer:** [00:15:16] Well, I think the software industry and the social network type of companies are a good place to be as against, you know, say, energy or even the banks where you have commodity risk and credit risk, I would avoid that. But, in the tech side of things, semiconductors, software, and the social-media space, I think there's room there to invest carefully. And sometimes price is an issue, and I would just make the comparison that if you'd bought property on Fifth Avenue 20, 30, 40 years ago, you'd say, wow, this is expensive, comparing to a house I can get in New Jersey. But it's always been a good investment to invest in a Fifth Avenue property, although I know that recently things might change and that's why you have to watch what you own. But, some stocks are Fifth Avenue properties. They sell at these multiples for very good reason. They have growth on their side and they have a very good competitive edge or moat. And so, I don't discount prices. I mean, I don't say don't be price-sensitive, but don't just screen for the 12 PEs because a lot of stocks sell at low PEs for very good reason, they're just not going to get over the hill. So, when I say tech and software, etc., you know, the PE ratios might frighten you and some of them are just ridiculously priced, and I won't mention the name, but the others have competitive moats and very good long-term prospects.

**Hall T Martin:** [00:16:57] Well, great. Well, in the last few minutes that we have here today, what else should we cover that we haven't?

**Albert Meyer:** [00:17:02] Well, let me cover a little hobbyhorse of mine, because I ran the numbers and I asked myself the question if - and I did this in 2015 and since then, the market's up another 40-60% - but in 2015, I asked myself the question, what if somebody who started work 40 years ago and placed their Social Security contributions in the S&P 500 instead of giving it to Social Security, what would they have had at the end of 2015? And I used - not all earnings are taxed - and so I just took the 80% of the maximum earnings that were taxed on Social Security and the person earning that and contributing that for 40 years. And it came to about $1.5 million, and then I figured out that the average Social Security check was about $1,300 a month and I asked Allianz, "Could you give me a $1,300 a month annuity?", and he said, "Yes, it will cost $300,000". So, you could have bought an annuity that Social Security would offer you of about $1,300 a month for $300,000 and you would have had another $1.2 million. I posted that on a website and one engineer came back and said, "I know. I ran the numbers, mine came to about $3 million". So, there's definitely an issue here with young people graduating where we spend billions or trillions on their education, but once they walk out of college with a ____ degree, the government says, "Yeah, you're not smart enough to take care of your own retirement". But, they need to call their representatives and agitate and say, "We're not voting for you because we want a choice to opt out of Social Security and put 15% of our wages in a locked account", say the S&P 500 QQQ and even a little bit in Treasuries, and it's locked for 65 years or 50 years, whatever. We don't want to throw it in that black hole called Social Security, because if we're prudent and we save a lot of money, by the time we're 65, you're going to means test us out of any contributions. So, it's a $52 trillion obligation at the moment just to provide Social Security for those who've paid into it, and the way to stop it is to give young people a choice to opt out. You can even take it further and allow some people who, say contributed for 10 years, they can get bought out of the system and then people can invest and they would be much more interested in the market if they had some skin in the game through their retirement accounts instead of putting it through Social Security. So, that's an issue that I think should get much more coverage. Young people, they're educated. We spend a lot of money on education and we say it's not worth the paper it's written on if it can't secure your own retirement; you don't need the government to take care of that anymore. Put your money in a locked account for 40 odd years and you'll be much better off than in Social Security, and if you do it for young people under the age of 25, you slowly wean the nation of their dependence on the government for their retirement needs. So, that's what I would say to investors. Young investors, look after yourself. You're pouring 15% because your employer's contribution also belongs to you. You're pouring 15% of your wages into Social Security, it will be much better if you could hold on to it. And another little side effect is if you die at 55, whatever you've saved will go to your wife or your children, instead of the Social Security people dancing in the aisles because they have one less obligation to pay for. So, the whole thing just doesn't make sense anymore. I don't know if it made sense in 1933, but it doesn't make sense today. So, that's what I would agitate for.

**Hall T Martin:** [00:20:42] Well, that's a great point there and they're dramatic differences in results for sure. So, how best for listeners to get back in touch with you?

**Albert Meyer:** [00:20:50] Well, if they go to my website at Bastiatfunds.com, they'll get all the information there. But if they put Bastiat Capital in Google, that's the first link that always shows up.

**Hall T Martin:** [00:21:01] Oh, great. We'll put that in the show notes. I want to thank you for joining us today and hope to have you back for a follow-up soon.

**Albert Meyer:** [00:21:07] Yeah. Well, thank you so much. I'm honored. Thank you.

**Hall T Martin:** [00:21:12] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investorconnect.org.

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